



NORTHSTAR
ASSET MANAGEMENT

Client Letter

20 January 2005

Quarter End: 31st December 2004

Page 1 of 3

Dear Investor

As discussed in our prior market report, the recent low levels of volatility and broad overall gains in the JSE have produced good returns across the board. Understandably, this environment has not been conducive to adding value through stockpicking. Despite the lack of opportunity to produce excess returns, we are happy to accept the capital gains which the market has provided in the period.

At Northstar we tend to invest in inexpensive, unfashionable and neglected shares and our clients enjoy the fruits of rigorous research and prudent investment practices. We buy shares early, sometimes too early. As long-term investors we are comfortable with taking a five year -or longer- view on our clients' investments. We sell when our analysis indicates the price to be fairly valued; again, sometimes too early. With the compounding of these investment profits we are able to steadily grow our clients' wealth. This is our understanding of true wealth accumulation and what we understand our mandate to be.

We have more conviction in our individual company analysis than our (or anyone else's) ability to predict either exchange rates or future stockmarket levels. While the persistent rand strength has surprised us and has restrained our performance, we are pleased to hold even those companies which are presently being adversely affected by the strong rand. Our continued analysis of these companies verifies that they remain attractive assets which, on a normalised basis, will enhance returns and significantly reduce the overall risk of our clients' portfolios. As disciplined and patient investors we are swayed more by fundamental empirical analysis of a company's long-term prospects than by more random variables.

In the past quarter, corporate restructuring, our favourite style of low-risk capital allocation has once again delivered handsome returns for our clients. Kersaf (now Sun International), MTN (in which we had increased our clients' holding when it swooned in the second quarter), Johncom and Nedbank all contributed generously to performance. As did our clients' large positions in Standard Bank and Tigerbrands which unbundled one Spar share for every Tigerbrands share held. That the Tigerbrands share price is largely unchanged post this unbundling implies that our clients received each Spar share (now priced at R21.00) all but for "free".

In our September commentaries, we shared that we had built a significant position in our clients' portfolios in Metro Cash and Carry (Metcash); which was subsequently renamed Metoz. We indicated that our analysis of Metcash identified it as "a laggard of the largely fully valued retail sector whose sum of the parts value substantially exceeded its (then) present share price".

We are pleased to advise our clients that our view was vindicated when the long announced restructuring of this company resulted in our clients receiving a dividend/distribution of 25% of our price paid for each Metcash share and, more recently, a take-over offer was announced which valued the shares at some 40% above the then share price. While we believe that this still does not fully value the company, we are inclined to again "sell too early" and accept the offer.

We remain grateful to our clients for the trust that you have placed in us. We revel in this responsibility and delight in delivering returns that reassure our clients that it is not misplaced.

Yours sincerely

Alexander Otten

NORTHSTAR ASSET MANAGEMENT (PTY) LTD.

4 Chester Drive Bishopscourt 7708 South Africa

Tel: 021- 797 8184 Fax: 021- 797 4706

email: info@northstar.co.za web address: www.northstar.co.za

Company registration number 1996/001423/07
Member of the Fund Managers Association of South Africa
Regulated by the Financial Services Board of South Africa

VAT registration number 429 01 666 46
Member of the Investment Analysts Society of South Africa
Authorised Financial Services Provider - License number: 601



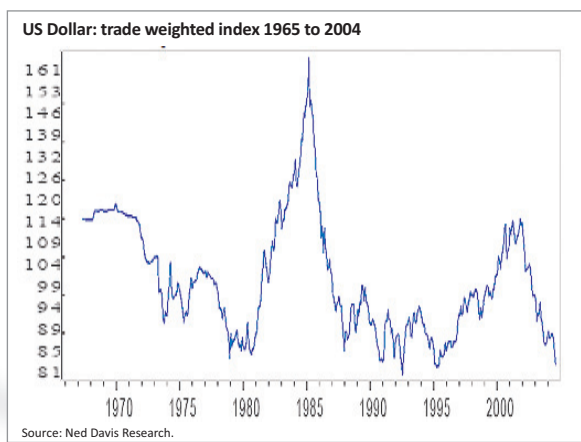
NORTH STAR
ASSET MANAGEMENT

Market Report

20 January 2005

Quarter End: 31st December 2004

Page 2 of 3



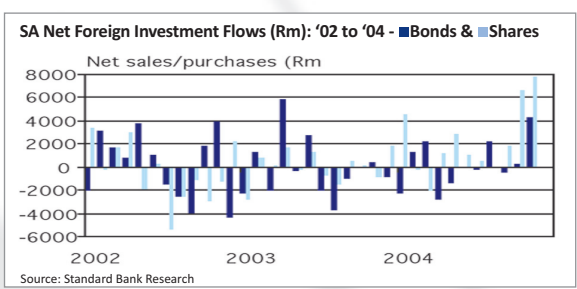
The US trade and budget deficits are now being accorded more prominent attention by the markets and the media but, as yet, not by policymakers. The structural pressures that these imbalances bring to bear on the global economy grow ever more apparent.

To curb the deficits, and to enhance competitiveness, the US has four options; reduce government spending, raise taxes, raise interest rates or depreciate the currency. Political agendas preclude the first two options. US interest rates have now been raised by 0.25% on five occasions in the past year; short term rates stand at 2.25% on par with inflation, and need to double again to just revert to neutral levels. The first three options have domestic impact for the US while currency depreciation “shares” the problem with the global economy.

While currency markets are notoriously difficult to forecast, their effect on interest rates, inflation and companies’ earnings necessitate that we hold an opinion. As in 2004, the value of the dollar will be one of the prime drivers in investment trends in 2005

The US dollar has, on a trade weighted basis, declined by around 30% in the past 3 years and is approaching the base from which it has recovered on several occasions in the past 40 years. US short-term interest rates now exceed those of Europe. The US congress recently cut tax on profits of US multinationals repatriated before December 2005 from 35% to 5.25%. US firms hold an estimated \$750bn off-shore of which around half is expected to be repatriated in the tax window. While it may not bounce back to significantly higher levels, we believe the \$ is likely to fall much further.

In the past few years investors’ assessment of the risks of investing in emerging markets has fallen significantly. Overvalued developed markets, accounting scandals and poor investment returns have encouraged investors to reassess emerging markets. As investors’ appetite for risk and yields have increased, the “risk premium” which these countries pay to access world capital markets has declined for the benchmark nations and for South Africa in particular. SA’s premium has fallen by 60% and is, for the first time, below that paid by China, Thailand and Brazil.



Since 2001, total investments in emerging markets have risen dramatically and, major economic disruption excluded, should continue to increase. In addition to portfolio flows, reinvigorated balance sheets have enabled companies in developed countries to enhance their growth prospects with acquisitions in emerging countries. South Africa has captured its share of these flows.



NORTHSTAR

ASSET MANAGEMENT

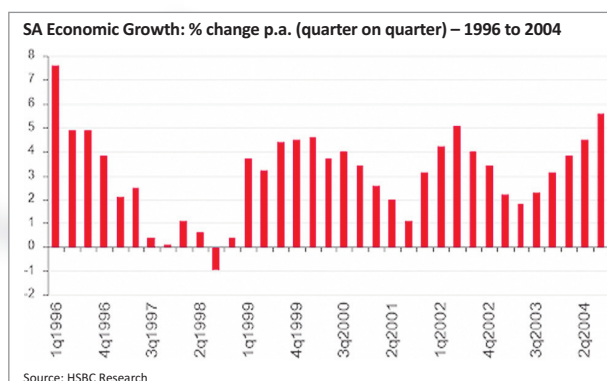
Market Report

20 January 2005

Quarter End: 31st December 2004

Page 3 of 3

Seemingly, the outlook for the South African economy could hardly be better. At the end of 2004 the economy grew at an impressive rate of 5.6%p.a. and the rand continued to strengthen. Inflation is benign and business confidence at heights last seen in 1980.



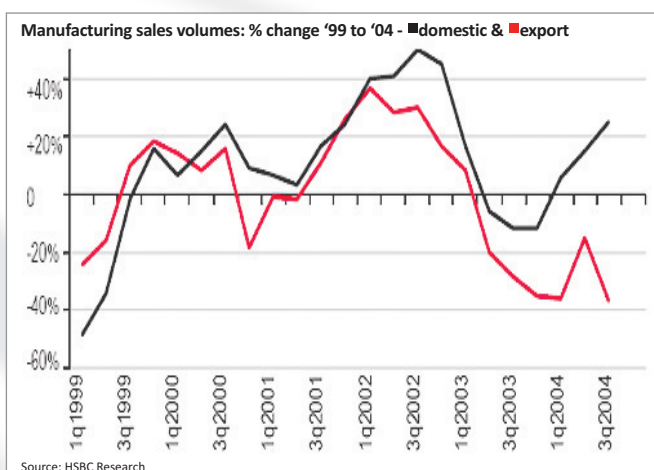
Much of the economy's growth is attributable to last year's significant decline in SA's interest rates. Interestingly, in statistical terms, 89.5% of the movement in SA's interest rates since January 2002 can be explained by movements in the rand foreign exchange rate. Given our views on that, for the foreseeable future, the likelihood of a further meaningful decline in local interest rates appears remote.

A key concern remains the imbalanced nature of growth in SA. The strong domestic economy stands in stark contrast with the rather bleak export sector. The growing trade deficit is worrying, especially when viewed against the backdrop of the economic cycle and

prevailing high commodity prices. The trade deficit is currently financed by what in the past have proved to be volatile foreign capital inflows attracted by SA's relatively high short-term interest rates.

While it may be unpopular to say so, we believe that SA's recently reported economic growth of 5.6% exceeds its sustainable trend growth. Furthermore, the domestic economy alone is unlikely to provide the engine for growth at this level; at least not without stoking inflation in the longer-term and all that this implies.

The booming domestic economy has allowed industrial companies to report record profits. We believe that the disequilibrium between the domestic and the export sectors of the economy, and the associated mounting trade deficit, is unsustainable. While we do not expect domestic growth to stall, we believe it will be less robust, at least until such time as the exports part of the economy is revived.



While we may be early, we are beginning to take profits on the industrial shares in which our clients were heavily invested and which have in the past few years provided impressive gains. We are rotating the proceeds of these sales into banking and selected resource companies.

Despite the market's broad gains, we continue to find value, in large, high quality, growth companies, which can be acquired at attractive prices. Many of these companies are priced at earnings multiples lower than the overall market but we believe these companies will, over time, grow earnings faster than the overall market.